

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 FEA-02 AGR-20 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 DRC-01 (ISO) W

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R 182115Z MAR 74

FM AMEMBASSY BRIDGETOWN

TO SECSTATE WASHDC 6878

INFO AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT OF SPAIN

AMEMBASSY NASSAU

LIMITED OFFICIAL USE BRIDGETOWN 0472

E.O. 11652: N/A

TAGS: ECON EGEN EFIN ENRG BB

SUBJ: SOARING COSTS FURTHER WEAKEN GOB FINANCIAL POSITION

REF: BRIDGETOWN 0403

SUMMARY: EXTERNAL INFLATION, ESPECIALLY OF OIL PRICES, HAS SERIOUSLY DRAINED GOB RESERVES BUT OVERALL GOB FINANCIAL POSITION MAY IMPROVE SOMEWHAT AS RESULT OF EXCELLENT TOURIST SEASON AND IMPENDING SALE OF SUGAR CROP. REAL EFFECTS OF INFLATION/ENERGY CRISIS WILL MOST LIKELY BE FELT TOWARDS END OF YEAR ALTHOUGH PLANNED LOCAL PRODUCTION OF ONE-THIRD OF ISLAND'S CRUDE NEEDS COULD SIGNIFICANTLY IMPROVE PICTURE FOR BARBADOS. HIGHER COSTS ARE CERTAIN TO REDUCE AMOUNTS AVAILABLE FOR INVESTMENT AND DEVELOPMENT. NOTWITHSTANDING, GOB HAS YET TO INSTITUTE RESTRICTIVE COUNTERMEASURES AND CRISIS HAS NOT YET VISIBLY AFFECTED LOCAL LIFE STYLE. PM MAY CLARIFY POLICY DURING PARLIAMENTARY DEBATE ON 1974-75 BUDGETARY ESTIMATES, WHICH BEGIN THIS WEEK, OR IN APRIL BUDGET PRESENTATION. END
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SUMMARY.

1. MOUNTING COSMLEF IMPORTS STEMMING FROM FUEL CRISIS AND GENERAL INFLATION ABROAD CONTINUE TO DRAIN GOB FOREIGN EXCHANGE RESERVES. GOB TOTAL RESERVES ARE ESTIMATED TO HAVE DECLINED TO BDS \$21.7 MILLION IN DECEMBER FROM A HIGH OF BDS \$61.4 LAST APRIL. (COMPARABLE PERIOD FOR 1972 SHOWS RESERVES OF BDS \$64.7 MILLION IN APRIL MOVING TO BDS \$50.3 IN DECEMBER.) WHILE NO OFFICIAL FIGURES HAVE BEEN RELEASED FOR LAST TWO MONTHS, SOME SAY TOTAL RESERVE LEVEL HAS FALLEN AS LOW AS BDS \$12 MILLION (WHICH WOULD REPRESENT ABOUT 4 WEEKS IMPORTS). RECENT PUBLIC CRITICISM OF DRAIN ON RESERVES AND ALLEGED DRYING UP OF INVESTMENT MONEY FROM ABROAD BY OUTGOING PRESIDENT OF BARBADOS MANUFACTURERS' ASSOCIATION AND BY OPPOSITION LEADER PROMPTED EDITORIAL IN MARCH 15 ADVOCATE-NEWS CALLING ON PM TO RESTORE CONFIDENCE IN ECONOMY BY CLARIFYING SITUATION AND GOB POLICIES.

2. IF RESERVES ARE AT LEVELS DESCRIBED, SITUATION IS NO DOUBT SERIOUS BUT THERE ARE AT LEAST TWO FACTORS TENDING TO MITIGATE SOMEWHAT EFFECT OF RESERVE OUTFLOW: (A) TOURISM RECEIPTS HAVE BEEN HIGH FOR PAST FEW MONTHS AND ALL HOTELS REMAIN FILLED TO CAPACITY, AND (B) SUGAR HARVESTING HAS JUST BEGUN AND RECEIPTS FROM SALES WILL AFFECT DRAIN TO SOME DEGREE. GOB CENTRAL BANK STATISTICIANS ARE ALSO STILL IN SHAKE-DOWN PERIOD AND SOME INFORMATION ON LEVEL OF RESERVES MAY HAVE BEEN RESULT OF INCOMPLETE OR INCORRECT TABULATION. AT ANY RATE, AS APRIL IS HIGH PERIOD FOR RESERVES AN UPTURN IS EXPECTED SOON. THIS DOES NOT ALTER FACT THAT RESERVES ARE LOWER THAN THEY HAVE BEEN FOR SOME TIME AND THAT HIGHER ACROSS BOARD IMPORT COSTS ARE GOING TO FORCE GOB TO CONSIDER COUNTERMEASURES. FULL IMPACT OF PRICE SQUEEZE WILL PROBABLY COME LATER IN YEAR, PERHAPS IN LATE FALL, WHEN RECEIPTS FROM OTHER SOURCES FALL TO LOWEST POINT.

3. PRECISE EFFECT OF INCREASED OIL PRICES IS UNCLEAR BEYOND FACT THAT OIL IMPORTS WILL BE TAKING MUCH LARGER PERCENTAGE OF GOB FOREIGN EXCHANGE. ON PAPER SITUATION LOOKS BAD, I.E. BARBADOS FUEL BILL WILL GO FROM ABOUT US \$4.5 MILLION TO US \$16 MILLION, OR FROM ABOUT 20 PERCENT TO BETWEEN 35-40 PERCENT OF TOTAL EXPORTS. FUEL CRISIS HAS TAKEN LEAD IN FEEDING LIMITED OFFICIAL USE

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AN INFLATIONARY SURGE WHICH NOW PROBABLY EXCEEDS LAST YEAR'S 26 PERCENT RATE. PRICE RISES HAVE OCCURRED ACROSS BOARD, AFFECTING EVERYTHING FROM UTILITY RATES (UP BETWEEN 15-20 PERCENT) TO FISHING AND FARMING OPERATIONS. (COST OF SUGAR HARVESTING IS ESTIMATED TO BE UP 35 PERCENT.) SO FAR MOST PRICE INCREASES HAVE BEEN PASSED ON TO CONSUMER, AND THERE HAVE BEEN NO SIGNIFICANT CUTS IN INDUSTRIAL OR AGRICULTURAL ACTIVITY. NOR HAS ENERGY CRISIS IMPACTED ON ORDINARY CITIZENS

OUTSIDE OF PRICE INCREASES. NO REAL POWER OUTAGES HAVE OCCURRED (OTHER THAN SYMBOLIC WARNING CUTOFFS LAST FALL) AND GASOLINE SHORTAGES HAVE THUS FAR PROVEN TO BE MORE OF NUISANCE THAN THREAT TO LIVING STANDARDS.

4. PICTURE OVER NEXT YEAR OR SO HAS SOME GRIM ASPECTS. REDUCTION OF FOREIGN EXCHANGE AVAILABILITY WILL MEAN LESS MONEY AVAILABLE TO GOB FOR DEVELOPMENT AND INFRASTRUCTURE BUILDING. DEGREE OF REDUCTION IS UNCERTAIN AND MORE PRECISE ASSESSMENT WILL HAVE TO AWAIT BUDGET ESTIMATES BEING DEBATED IN HOUSE OF ASSEMBLY THIS WEEK AND BUDGET PRESENTATION SLATED FOR APRIL. ONE POSSIBLE BRIGHT SPOT FOR BARBADOS IS THAT ISLAND MAY BE ABLE TO SUPPLY ONE-THIRD OF ITS CRUDE REQUIREMENTS FROM LOCAL SOURCES BY END OF 1974. US-OWNED GENERAL CRUDE OIL COMPANY REMAINS CONFIDENT THAT IT CAN ACHIEVE THIS GOAL, AND CONTINUES TO SPEND OVER US \$2 MILLION ANNUALLY IN DRILLING AND EXPLORATION OPERATIONS HERE. (GENERAL CRUDE IS ALSO HOPEFUL-FOR LONGER TERM-OF OFFSHORE OIL POSSIBILITIES IN ST VINCENT'S GRENADINES AND OFF GRENADA WHERE IT NOA HOLDS LEASES.) GOB PLANNERS, LESS CONFIDENT THAN GENERAL CRUDE, HAVE THUS FAR NOT FACTORED LOCAL OIL PRODUCTION IN PLANNING ESTIMATES; HOWEVER, IT IS OBVIOUS THAT SUCH PRODUCTION WOULD SIGNIFICANTLY REDUCE IMPORT NEEDS WITH A CORRESPONDINGLY FAVORABLE IMPACT ON GOB FOREIGN EXCHANGE DRAIN. (EFFECT OF SUCH BENEFITS WOULD NOT BE FELT IMMEDIATELY SINCE OIL EQUIPMENT, PIPELINE, ETC. MUST ALL BE IMPORTED.)

5. BARBADOS REMAINS PERHAPS ONLY COUNTRY IN AREA WHICH HAS YET TO TAKE SPECIFIC RESTRICTIVE STEPS TO DEAL WITH INFLATIONARY SITUATION. GOB HAS PUT RESTRICTIONS ON IMPORTATION OF CERTAIN FOODSTUFFS BUT THESE STEM CHIEFLY FROM DESIRE PROTECT LOCAL PRODUCERS. THERE HAS BEEN NO SYSTEMATIC GOB RESTRICTION OF IMPORTS. NEITHER HAS GOB MOVED TO CUT GASOLINE CONSUMPTION LIMITED OFFICIAL USE

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OF AUTO USAGE. GOB RESTRICTIONS ON CONVERTIBILITY TO STERLING (BRIDGETOWN 0403) ARE SEEN MORE AS OUTGROWTH OF INDEPENDENT MONETARY POLICY AND WEAKENING OF TIES WITH UK THAN AS COUNTERMEASURE TO FINANCIAL CRISIS. PM MAY LAY DOWN NEW POLICIES IN HIS APRIL BUDGET SPEECH, BUT SO FAR BARBADOS FACES ENERGY AND FINANCIAL CRUNCH IN CALM AND DELIBERATE FASHION, MINDFUL BUT NOT SHAKEN OVER FACT THAT THINGS WILL CERTAINLY GROW WORSE TOWARDS END OF YEAR.

DEONTROL FOLLOWING JANUAR 1, 1975.
DONOVAN

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